Minnesota Housing Mortgage Loans
Start Up Program Procedural Manual

June 30, 2017

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Introduction

Mission Statement

Housing is the foundation for success, so we collaborate with individuals, communities and partners to create, preserve and finance affordable housing.

Background

The Minnesota Housing Finance Agency ("Minnesota Housing") was created in 1971 by the Minnesota Legislature.

Minnesota Housing offers three mortgage loan programs to serve low- and moderate-income homebuyers:

- The Start Up Program for First-Time Homebuyers, a first mortgage loan program with access to downpayment and closing cost loans.
- The Mortgage Credit Certificate (with First Mortgage) for First-Time Homebuyers that includes a first mortgage loan, a Mortgage Credit Certificate (MCC), and access to a downpayment and closing cost loan.
- The Step Up Program for non-First-Time Homebuyers, for home purchase or refinance, with access to a downpayment and closing cost loan.

Lenders originate and close loans under their individual underwriting and closing procedures. A Master Servicer purchases and securitizes closed loans originated by a Lender under prescribed program requirements. Lenders are advised that underlying eligible product guidelines and Master Servicer requirements apply which may be more restrictive than the Minnesota Housing guidelines.

Minnesota Housing also provides financial assistance to potential Borrowers who need downpayment and closing cost loans to make homeownership possible with the Monthly Payment Loan, Deferred Payment Loan, and Deferred Payment Loan Plus.

Procedural Manual

This Procedural Manual sets forth the terms and conditions under which the Master Servicer will purchase mortgages under Minnesota Housing's Start Up and downpayment and closing cost loan programs.

Mortgage Revenue Bond Programs

The Start Up Program offers low-interest loans throughout Minnesota to low- and moderate-income, First-Time Homebuyer Borrowers through local participating Lenders.

Downpayment and Closing Cost Loans

Deferred Payment Loan Program (see Chapter 6). The Deferred Payment Loans help Borrowers with downpayment and closing costs with interest-free deferred loans.

Monthly Payment Loan (see Chapter 6). The Monthly Payment Loan provides an amortizing loan with an interest rate equal to the first mortgage to help Borrowers with downpayment and closing costs.

The Master Servicer

U.S. Bank Home Mortgage, HFA Division, is the Master Servicer for Minnesota Housing and as such purchases Start Up Loans and issues mortgage-backed securities for the Agency. In order to be eligible for purchase, and in addition to the guidelines set forth in this Procedural Manual, U.S. Bank Home Mortgage, HFA Division, requires lenders to satisfy all the requirements it has published in All Regs.

Chapter 1 – Lender Responsibilities and Warranties

1.01 Procedural Manual

This Procedural Manual, including subsequent changes and additions, is a supplement to the Participation Agreement for Minnesota Housing Single Family Mortgage Backed Securities Mortgage Revenue Bond Programs, as amended or supplemented (referred to as the Participation Agreement) for Minnesota Housing mortgage programs executed between the Lender and the Master Servicer and the Lender and Minnesota Housing. It is incorporated into the Participation Agreement by reference and is a part of it as fully as if in the Participation Agreement at length.

Minnesota Housing reserves the right to:

- Change the program interest rate(s) at any time and at its sole discretion
- Change the Commitment Policy at any time
- Alter or waive any of the requirements
- Impose other or additional requirements
- Rescind or amend any or all materials effective as of the date of issue unless otherwise stated
- Grant waivers, alterations, or make revisions at its sole discretion

1.02 Evidence of Misconduct Referred to Attorney General

- Minnesota Housing will refer any evidence of fraud, misrepresentation, or other misconduct in connection with the operation of these programs to the Minnesota Attorney General's office for appropriate legal action.
- If, after a loan is made, the Lender discovers any material misstatements or misuse of the proceeds of the loan by the Borrower(s) or others, the Lender must promptly report the discovery to Minnesota Housing and the Master Servicer.
- Minnesota Housing, or the Master Servicer, or both, may exercise all remedies available to them under the Participation Agreement or otherwise, both legal and equitable, to recover funds from the Lender or the Borrower(s). This includes repayment of loan funds, together with all applicable administrative costs and other fees or commissions received by the Lender in connection with the loan and reimbursement of all attorney fees, legal expenses, court costs, or other expenses incurred by Minnesota Housing in connection with the loan or its recovery.

1.03 Disclosure and Use of Social Security Number/Minnesota Tax Identification Number

The Minnesota Revenue Recapture Act (Minnesota Statutes, Sections 270A.01 to 270A.12, as amended) allows the disclosure of the Borrower(s) Social Security Number or Minnesota Tax Identification Number to the Minnesota Department of Revenue. This could result in the application of state tax refunds to the payment of any delinquent indebtedness of the Borrower(s) to Minnesota Housing.

1.04 Unauthorized Compensation

The Lender may receive fees approved in this Procedural Manual. However, the Lender may not receive or demand from the realtor, builder, Property Seller, or Borrower(s):

- Kickbacks
- Commissions
- Other compensation

1.05 Minnesota Housing Due Diligence Audit Guidelines and Requirements

The Lender is required to keep on file a complete copy of documents for each loan originated for purchase by the Master Servicer. A loan file may be requested to be forwarded to Minnesota Housing for review. Loan audits will include, but are not limited to, a minimum of 10% of all loans purchased by the Master Servicer.

Audited loans are reviewed for:

- Mortgage revenue bond law compliance
- Minnesota Housing program and policy compliance
- Fraud or misrepresentation on the part of any party involved in the transaction
- Trends or other indicators that may have an impact on the success of the Borrower(s) and programs

1.06 Termination of Lender Participation

Minnesota Housing may terminate the participation of any Lender under the programs at any time and may preclude the Lender’s future eligibility for reasons including, but not limited to, nonconformance with:

- This Procedural Manual
- The Participation Agreement
- The Master Servicer’s Lender Guide
- The Federal Fair Housing Law or the Equal Credit Opportunity Act

- Any federal or state laws or acts that protect the Borrowers' rights with regard to obtaining financing for homeownership
- Other applicable state and federal laws, rules, and regulations

Upon termination of a Lender's contract, the Master Servicer will continue to purchase eligible loans for which a commitment was issued, until the commitment expiration date.

- Minnesota Housing will not refund participation fees to the Lender.
- Minnesota Housing may, at its option, impose remedies other than termination of the contract for Lender nonperformance.
- The Lender may request reinstatement into Minnesota Housing programs. The decision to reinstate a Lender is at Minnesota Housing's or the Master Servicer's sole discretion.

1.07 Covenants

The Lender agrees to follow all applicable federal, State, and local laws, ordinances, regulations, and orders including, but not limited to, the following as then in effect (and any applicable rules, regulations, and orders):

- Ability-to-repay and Qualified Mortgage (QM)
- Americans with Disabilities Act
- Anti Predatory Lending Act
- Anti-Money Laundering and Office of Foreign Assets Control Policy
- Bank Secrecy Act
- CFPB Unfair, Deceptive, or Abusive Acts or Practices Rules
- Data Privacy - Minnesota Statutes Chapter 13 and Section 462A.065
- Dodd-Frank Wall Street Reform and Consumer Protection Act
- Equal Credit Opportunity Act
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62
- Fair and Accurate Credit Transactions Act
- Fair Credit Reporting Act
- Federal Fair Housing Act (Title VIII of the Civil Rights Act of 1968)
- Home Mortgage Disclosure Act
- Home Ownership and Equity Protection Act (HOEPA)
- HUD Discriminatory Effects Regulation/Disparate Impact Regulation

- Internal Revenue Code of 1986, Section 6050H
- Loan Officer Compensation
- Minnesota Human Rights Act – Minnesota Statutes Chapter 363A
- Minnesota S.A.F.E. Mortgage Licensing Act of 2010 – Minnesota Statutes Chapters 58 and 58A
- Mortgage Disclosure Improvement Act (MDIA)
- National Flood Insurance Act
- Real Estate Settlement Procedures Act of 1974
- Section 527 of the National Housing Act
- Title VI of the Civil Rights Act of 1964
- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974
- Truth In Lending Act
- USA Patriot Act

In addition to the above-listed covenants, the Lender will have examined:

- The person who confirms on Minnesota Housing's loan commitment system, the Lender Representations and Warranties on behalf of the Lender, has the authority to legally bind the Lender and is fully conversant with:
  - The Master Servicer's requirements as published in All Regs
  - The Minnesota Housing program requirements
  - The underlying loan product and insurer/guarantor requirements
- The Lender is in compliance with all terms, conditions, and requirements of:
  - The Participation Agreement
  - This Procedural Manual
  - The Master Servicer's Lender Guide unless those terms, conditions, and requirements are specifically waived by Minnesota Housing or the Master Servicer, as applicable, in writing.

1.08 Lender Compensation

The Lender is compensated for each loan purchased by the Master Servicer as follows:

- The origination fee collected from the Borrower(s) in accordance with RESPA.

- The service release premium paid by the Master Servicer in an amount established by Minnesota Housing and posted on the Minnesota Housing website.

1.09 Annual Renewal Requirements and Fees

- The Lender must meet the minimum loan volume requirements as specified by Minnesota Housing or by the Master Servicer, whichever is greater.
- The Lender must be approved by both Minnesota Housing and the U.S. Bank, HFA Division, to originate Minnesota Housing loans.

Chapter 2 – Master Servicer Requirements

Minnesota Housing's Master Servicer, U.S. Bank Home Mortgage, HFA Division, has requirements that may be more restrictive than Minnesota Housing requirements and underlying product guidelines. Minnesota Housing highlights in this procedural manual only certain U.S. Bank Home Mortgage, HFA Division, requirements that impose more stringent guidelines on Minnesota Housing's Start Up policies. Lenders must review and comply with all of U.S. Bank Home Mortgage, HFA Division, requirements included in All Regs.

The U.S. Bank Home Mortgage, HFA Division, requirements lenders must review in tandem with Minnesota Housing's policies include but are not necessarily limited to:

- Condos
- Manufactured Housing
- Credit Score Requirement
- Debt-to-income (DTI) Requirement

Chapter 3 - Borrower Eligibility

3.01 Borrower

One individual or multiple individuals are eligible to be a Borrower only if the individual(s) meet the requirements of this Procedural Manual.

3.02 Borrower Age

The Borrower(s) must be 18 years of age or older or be declared emancipated by a court having jurisdiction.

3.03 Co-Signers

Co-signers are permitted on Start Up loans. Co-signers sign the Start Up loan note and the downpayment assistance loan note, if applicable. Co-signers are not vested in title to the property and may, or may not, reside in the subject property. See Section 3.09.

3.04 Unauthorized Compensation

The Borrower(s) may not receive kickbacks, rebates, discounts, or compensation from any subcontractor, realtor, or Property Seller.

3.05 Prior Homeownership - Three-Year Requirement

The Borrower(s) may not have had an ownership interest in a Principal Residence at any time during the three year period ending on the date of execution of the mortgage. This requirement applies to any person who will execute the note and will have a present ownership interest in the financed property.

Ownership interest includes:

- A fee simple interest
- An individual tenancy, joint tenancy, a tenancy in common, or a tenancy by the entirety
- The interest of a tenant shareholder in a cooperative
- A life estate
- A leasehold estate or a leasehold estate subject to a Community Land Trust
- A land contract, under which possession, benefits, and burdens of ownership are transferred although legal title is not transferred until a later time
- An interest held in trust for the Borrower(s) (whether or not created by the Borrower(s)) that would constitute a present ownership interest if held directly by the Borrower(s)
- A vendee interest in a contract for deed with a term greater than 24 months
- An ownership interest in a mobile home that is taxed as real estate

Interests that do not constitute an ownership interest include:

- A remaindermen interest
- An ordinary lease with or without an option to purchase
- A mere expectancy to inherit an interest in a Principal Residence
- The interest that a purchaser of a residence acquires on the execution of an accepted offer to purchase real estate
- An interest in a non-Principal Residence during the last three years (e.g. a recreational or seasonal home)
- An ownership interest in a mobile home which is not permanently attached to the land and is taxed as Personal Property
- An interest acquired through temporary financing (e.g. construction loan, bridge loan, contract for deed) with an initial term of 24 months or less

Required Documentation:

- To verify that the Borrower(s) meets the three-year requirement, the Lender must provide the following documentation for the three-year period preceding execution of the mortgage documents (loan closing):
    - The signed federal income tax returns (IRS Form 1040 and all its versions), or
    - Tax Return Transcripts requested from the IRS and sent directly to the lender without passing through the Borrower's hands, or
    - A letter from the IRS indicating the type of tax return filed and the significant line entries from the return(s), or
    - If the borrower (s) was not legally required to file a federal income tax return, for any or all of the three years, an affidavit executed by the Borrower (s) must be provided.
- The Lender should examine the tax returns or tax transcripts and the credit report for any evidence that the Borrower(s):
    - may have owned a Principal Residence during the past three years, or
    - may have claimed deductions for property taxes or mortgage interest deductions on a primary residence
- If the lender cannot verify the absence of ownership from a review of the tax returns, tax transcripts or other evidence, the absence of an ownership interest must be documented and verified by:
    - a title search with respect to the property to provide reasonable assurance that there was no actual ownership in a primary residence; and

- a signed, written explanation from any Borrower(s) that the Borrower (s) has not had an ownership interest in a primary residence within the past three years.

- Special Documentation for Current Ownership - A Borrower(s) with a current ownership interest in a residence within the most recent three year period must be able to provide evidence (e.g. copy of rental agreement or lease) showing that they have not lived in the dwelling during the most recent three year period.

3.06 Principal Residence/Occupancy Requirement

The Borrower(s) must intend to occupy the financed dwelling as a Principal Residence within 60 days after the closing of the loan. A certification of the owner occupancy is to be made by the Borrower(s) in the Borrower Affidavit.

3.07 Homebuyer Education

Homebuyer Education is required for Borrowers securing Minnesota Housing financing under the following:

- Fannie Mae HFA Preferred™ (Conventional)
- Fannie Mae HFA Preferred Risk Sharing™ (Conventional)
- Freddie Mac HFA Advantage℠ (Conventional)
- Funds for downpayment or closing costs through the Deferred Payment Loan, Deferred Payment Loan Plus, or the Monthly Payment Loan

Approved Homebuyer Education:

- Home Stretch
- Pathways Home: A Native Homeownership Guide
- Realizing the American Dream
- Framework (Online Course)

Homebuyer education must be completed before closing. The above-noted requirements are satisfied when at least one Borrower per household provides a certificate of completion. Minnesota Housing does not have a homebuyer education certificate expiration date policy.

3.08 Credit Scores and Debt-to-Income (DTI) Ratios

The Start Up Loan Program credit score and debt-to-income (DTI) requirements vary based on underlying loan products. Refer to Minnesota Housing's Credit and DTI Matrix for credit score and DTI requirements by product types. In addition, Minnesota Housing's requirements for the use of non-traditional credit that impact DTI and reserve requirements must be satisfied.

Refer to the following product descriptions on Minnesota Housing's website for additional conventional product requirements:

- Fannie Mae HFA Preferred™
- Fannie Mae HFA Preferred Risk Sharing™
- Freddie Mac HFA Advantage℠

Minnesota Housing offers this chart and these product descriptions as a good faith assistance for Lenders. The Lenders are advised to fulfill their due diligence in adhering to all underlying product and U.S. Bank Home Mortgage, HFA Division, requirements, and not solely relying on the tools provided in this procedural manual.

See All Regs for additional, specific U.S. Bank requirements.

Table 1. How to Determine Which Borrower Credit Score to Use

Number of Scores	Guidance	Minimum Credit Score/Maximum Debt-to-Income Ratio (DTI)
3 scores	Use middle of the scores	Refer to Minnesota Housing's Credit and DTI Matrix
2 scores	Use lower of the two scores	
1 score	Use the available score	
Multiple Borrowers: all with credit scores	Use the score from the Borrower with the lowest score to determine maximum DTI	
Multiple Borrowers: at least one Borrower has a credit score and the other Borrower(s) does not have a credit score	Defer to the underlying product guidelines	
Sole Borrower or Multiple Borrowers: No score	Defer to the underlying product guidelines	
Insufficient credit to support an AUS Approval or has erroneous, inaccurate, or disputed credit	Defer to underlying product guidelines	

3.09 Program Eligibility Income

The total Program Eligibility Income may not exceed Start Up Program income limits posted on Minnesota Housing's website.

Household Members Whose Income Must Be Included When Calculating Program Eligibility Income

The income of the following persons must be verified and included when calculating Program Eligibility Income:

- Anyone who will have title to the subject property and signs the Mortgage Deed.
- Anyone expected to reside in the subject property and who is obligated to repay the Start Up loan (signs the Note) but who is not in title to the subject property; i.e. the Co-Signer (not named in title to the subject property and does not sign the Mortgage Deed).
- Any legal spouse of the Borrower who will also reside in the subject property.

If the Borrower is legally married and the spouse is not expected to reside in the subject property, the loan file must contain either the Non-Occupant Spouse Statement or another statement indicating the spouse is not obligated to repay the loan and is not named in title to the subject property.

Person		Signs Mortgage	Signs Note	Resides in Property		Include in Eligibility Income Calculation
Co-Borrower	If this…	X	X	X	Then this…	Yes
Co-Signer, occupant			X	X		Yes
Co-Signer, non-occupant			X			No
Spouse, occupant, non-borrowing				X		Yes
Spouse, non-occupant, non-borrowing						No

Any person whose income must be included in the Program Eligibility Income calculation who receives no income must sign either the Zero Income Statement or another statement indicating that he or she receives no income.

Program Eligibility Income Calculation

The Program Eligibility Income Worksheet posted on Minnesota Housing's website delineates the Program Eligibility Income requirements. Lenders are responsible for computing Program Eligibility Income based on these requirements.

The total Program Eligibility Income is calculated using the Annualized Gross Income. Annualized Gross Income includes, but is not limited to:

- Base Pay from an employer
- Additional Pay from an Employer (over and above base pay)

- Self-Employment or Business Income
- Income from Financial Assets Government Transfer Payments Insurance or Benefit Payments Investment Property Net Rental Income
- Child or Spousal Support
- Regular Cash Contributions
- Employee Allowances
- Custodial Account Income

Always include sources of income unless specifically excluded on the Program Eligibility Income Worksheet. For more details on income inclusions and exclusions, refer to the Program Eligibility Income Worksheet.

The calculation of Program Eligibility Income must take place in the 120-day period immediately preceding loan closing. In determining Program Eligibility Income, the Lender must rely on the most recently verified income documentation in the loan file.

3.10 Loans to Employees and Affiliated Parties

The Lender may make Minnesota Housing loans to their directors, officers, employees, and their families as well as to builders, realtors, and their families, and any other principal with whom the Lender does business. Minnesota Housing employees and their families are also eligible. The Borrower(s) must meet all eligibility criteria for the program.

Chapter 4 - Property Eligibility

4.01 Eligible Properties

Properties eligible for a loan under the Start Up must be located in the State of Minnesota and may include any of the following housing types listed below. The Lender is advised that U.S. Bank and underlying eligible products may have more restrictive property eligibility requirements. Refer to All Regs for additional, specific U.S. Bank Home Mortgage, HFA Division, requirements and to Fannie Mae HFA Preferred™, Fannie Mae HFA Preferred Risk Sharing™, and Freddie Mac HFA Advantage℠ product descriptions on Minnesota Housing's website.

- A single-family detached residence
- A unit within an eligible Planned Unit Development ("PUD")
- A condominium unit eligible under U.S. Bank Home Mortgage, HFA Division, additional requirements as published in All Regs
- A duplex that meets the following requirements:
    - The Borrower(s) must occupy one unit of a duplex property
    - The duplex property must be a residence for at least five years before the date of the new mortgage, i.e. not New Construction or recently converted from non-residential use
- A property located in a Community Land Trust ("CLT").
- A manufactured home built to Federal Manufactured Home Construction Safety Standards, administered by HUD, permanently affixed to a foundation and taxed as real property. All loans for manufactured homes must be eligible for purchase under U.S. Bank Home Mortgage HFA Division, additional requirements published in All Regs.
    - Manufactured or mobile homes are acceptable only for government insured/guaranteed loan products if they meet the following requirements:
        - Foundation: Permanently attached and anchored per manufacturer specifications to a basement, slab, or footings to the frost line
        - Wheels, axles, and trailer hitches must be removed
        - The unit must be assessed as real estate for property tax purposes
        - The unit must meet the requirements of the underlying loan product and the applicable insurer/guarantor
- A modular home built to state building codes and delivered to the site in modular sections. Modular homes are acceptable for all financing, subject to loan product guidelines and the approval of the mortgage insurer/guarantor.

4.02 Ineligible Properties

Properties not eligible for financing are as follows:

- A unit in a Cooperative Corporation or a limited equity Cooperative Corporation
- A Recreational or seasonal home
- A Single-wide mobile or manufactured home, even if permanently affixed to a foundation and taxed as real property
- A property intended to be used as an investment property (except the rental of a second unit in a duplex)
- A newly constructed duplex or a duplex converted from nonresidential use in the past five years
- A property where 15% or more of the total area of the property is used primarily in a trade or business in a manner which would permit the Borrower(s) to take a deduction for any portion of the costs of the property for expenses incurred in connection with the trade or business use of the property on the Borrowers' federal income tax return
- The Lender is advised that underlying eligible products may have more restrictive ineligible property requirements. Refer to the Fannie Mae HFA Preferred™, Fannie Mae HFA Preferred Risk Sharing™, and Freddie Mac HFA Advantage℠ product descriptions on Minnesota Housing's website.

4.03 Acquisition Cost Limit

The Acquisition Cost is the cost of acquiring an eligible property from the Property Seller as a completed residential unit. The Acquisition Cost of a property may not exceed the amounts listed on Minnesota Housing's website.

The Acquisition Cost includes:

- All amounts paid either in cash or in kind, by the Borrower(s) (or by a related party for the benefit of the Borrower(s)) to the Property Seller (or to a related party for the benefit of the Property Seller) as consideration for the property.
- All amounts paid by or on behalf of the Borrower(s) and required to complete or repair a residence whether or not the cost of the completion or repairs is to be financed with the proceeds of a Minnesota Housing loan (which may be agreed upon beyond the contractual purchase price).
- The purchase price as well as all repair costs for FHA 203K Streamlined loans.
- All land cost or land value as stated in New Construction Requirements Section 4.07.
- All special assessments paid or assumed by the Borrower(s).

The Acquisition Cost does not include:

- Usual and reasonable closing or financing costs
- Any special assessments paid by the Property Seller

4.04 Appraised Value

The appraised value of the subject property may not exceed 125% of the applicable Acquisition Cost Limit.

4.05 Personal Property

Personal Property may not be financed by the Minnesota Housing loan and may not be listed on the purchase agreement between the Borrower(s) and Property Seller for the purchase and sale of the real property financed by that loan. Only permanently affixed property (fixtures) are eligible for financing.

4.06 Excess Property

The financing of a property may include only land necessary to maintain the “basic livability” of the dwelling.

- The financed land may not provide other than incidental income to the Borrower(s).
- The land may not comprise more than one parcel or be eligible for legal subdivision unless the appraiser states that the land is commensurate in size with other residential parcels in the community.
- If the land value exceeds 45% of the total appraised value the appraiser must address whether the size of the lot is common or typical for the area.

4.07 New Construction Requirements

In addition to the property eligibility requirements stated in Section 4.02 of this Procedural Manual, a New Construction property must meet the following requirements:

- The land must be zoned for residential housing.
- The cost of land purchased within 24 months before the date on which construction begins must be included in the Acquisition Cost.
- The value of land, as determined by the appraiser, must be used to determine the Acquisition Cost if the land was purchased more than 24 months before the date on which construction begins or through a non-arm’s length transaction.
- Any temporary financing (e.g. construction loan, bridge loan, contract for deed) provided before the date of the loan closing may not exceed a 24 month term.
- The Land equity (the dollar value of the difference between land value/cost and the total amount the Borrower owes against the land) may be used by a Borrower only as a downpayment.

- A Certificate of Occupancy must be issued for the property before loan closing.
- The Borrower(s) may not act as the General Contractor.

See Section 5.02 for New Construction financing requirements.

Chapter 5 – Loan Eligibility

5.01 Eligible Loans

The Master Servicer purchases closed loans from the Lender under contract in Minnesota Housing mortgage loan programs. The Lender must warrant that the following criteria are met for each loan submitted for purchase.

Eligible loan products include:

- Federal Housing Administration (FHA) purchase transactions
- FHA 203(k) Streamlined Purchase
- Veterans Administration (VA)
- Rural Development (RD)
- Fannie Mae HFA Preferred™ (Conventional)
- Fannie Mae HFA Preferred Risk Sharing™ (Conventional)
    - Originated by participating Lenders eligible under their Participation Agreement to offer Preferred Risk Sharing
- Freddie Mac HFA Advantage℠ (Conventional)

Lenders are advised to refer to conventional product descriptions on the Minnesota Housing website for product requirements.

Loans purchased by Minnesota Housing must satisfy the following criteria:

- All local, state, and federal laws and regulations including those relating to affirmative action, fair housing, equal opportunity, truth-in-lending, and wrongful discrimination in residential housing are met.
- The Minnesota Housing First-Time Homebuyer, program income, and property acquisition requirements are met.
- The loan must be originated and closed in, or assigned to, the name of the Lender that is a party to the Participation Agreement and that has gained an Individual Commitment of funds from Minnesota Housing via the Minnesota Housing loan commitment system.

5.02 New Construction Requirements

In addition to the loan eligibility requirements already stated in this Procedural Manual (Section 3.09), a New Construction property must meet the following requirements:

- The Minnesota Housing funds are not used for temporary initial financing (e.g. interim or construction financing).

- All sweat equity meets the requirements of the applicable loan product and insurer/guarantor, as well as the following:
    - The work was done by the Borrower or members of a Borrower's family, specifically, the Borrower's brothers and sisters (whether by whole or half-blood), spouse, or lineal descendants
    - The individuals that did the work must be qualified to do the specific type of work
    - The maximum dollar amount of the sweat equity does not exceed $5,000
    - The sweat equity is not a part of the Acquisition Cost
    - The sweat equity includes only the value of work and not the cost of materials

5.03 Ineligible Loans

Ineligible loans include, but are not limited to:

- Loans for the acquisition or refinancing of an existing mortgage
- Any first or second mortgage loans that are financed with the proceeds of the sale of tax-exempt bonds

5.04 Subsidy Recapture Disclosure

Federal law requires that all loans funded by mortgage revenue bonds be subject to subsidy recapture regulations. Subsidy recapture enables the federal government to collect some of the subsidy realized by Borrower(s) from the interest rate differential resulting from the mortgage revenue bond financing.

The recapture tax is payable through the Borrowers Federal Income Tax Returns for the year the Borrower sells or transfers an eligible residence. The recapture tax provisions of the Code apply to all Borrowers. The recapture may apply <u>if all three of the following conditions occur at once</u>:

- The residence is sold within the first nine years of the closing date
- The Borrower realizes a gain on the sale of the residence (as defined by the IRS)
- The Borrower's income has increased since the closing date and exceeds the limits established by the IRS

To ensure understanding and disclosure of subsidy recapture, the Lender must:

- Explain subsidy recapture to the Borrower(s) at the time of loan application (see Start up Initial Disclosure Summary and Subsidy Recapture Overview on www.mnhousing.gov)

Require the Borrower(s) to sign the completed Subsidy Recapture Disclosure Statement

- at closing or as close to closing as possible

5.05 Interest Rate/Amortization Requirements

Minnesota Housing requires all loans:

- Have a fixed interest rate
- Are fully amortized over the term of the loan
- Are payable on the first of each month in level installments that include at least principal and interest

Interest rates for Minnesota Housing loan programs are listed here.

5.06 Mortgage Term

All loans must have a 15-year or 30-year term.

5.07 Private Mortgage Insurance Coverage

All loans requiring private mortgage insurance must have coverage at the levels prescribed by the underlying mortgage product guidelines.

5.08 Private Mortgage Insurance Companies – Minimum Requirements

All private mortgage insurance companies must:

- Be licensed to do business in the State of Minnesota
- Maintain a rating of A2 from Moody's Investor Services and AA from Standard and Poor's Corporation at the time the mortgage loan is purchased by the Master Servicer, or have Fannie Mae and Freddie Mac approval

5.09 Refinancing of an Existing Mortgage

Minnesota Housing does not allow the refinancing of an existing loan unless the loan is used to replace or refinance temporary initial financing.

5.10 Settlement/Closing Costs

The settlement and closing costs, fees, or charges the Lender collects from any party in connection with any loan must:

- Comply with Minnesota law
- Meet all requirements of the insurer/guarantor
- Not exceed an amount deemed usual or reasonable for the type of transaction (e.g. FHA, VA, Conventional)
- Not exceed the actual amounts expended for any item (e.g. credit report, appraisal)
- Ensure the Borrower does not pay more than a pro-rata share of property taxes

5.11 Gifts

All gifts received by the Borrower(s) for a Minnesota Housing loan must satisfy the requirements of the applicable first mortgage loan product and the insurer/guarantor.

5.12 Non-Minnesota Housing Secondary Financing

Secondary financing offered by a city or county government, a non-profit, or a for-profit, including downpayment assistance, community seconds (including resale restrictions), or other forms of secondary financing used in conjunction with a Minnesota Housing loan, must comply with the following:

- Meet all requirements of the applicable first mortgage loan product and insurer/guarantor (i.e., FHA Secondary Financing, Fannie Mae Subordinate Financing, Freddie Mac Affordable Seconds)
- The Borrower may receive cash back at closing from secondary financing proceeds only when the cash back is a refund of the Borrower's own investment, as allowed by the first mortgage product.
- The secondary financing does not reduce the Acquisition Cost (Start Up and MCC only)
- Minnesota Housing requires full disclosure of any and all secondary financing

For transactions using Minnesota Housing's Monthly Payment Loan:

- The Monthly Payment Loan must take 2nd position

5.13 Non-Complying Loans

Minnesota Housing or the Master Servicer may have the right to take one or more of the following actions in the event the Lender submits a mortgage loan that does not, as determined by Minnesota Housing or the Master Servicer, comply with the requirements of this Procedural Manual:

- Adjust the purchase price of the non-complying loan
- If not already purchased, refuse to purchase the loan
- If already purchased, require the Lender to repurchase the loan for the purchase price
- Terminate, suspend, or otherwise limit the Lender's Participation Agreement with Minnesota Housing or the Master Servicer
- Preclude the Lender from future participation in Minnesota Housing programs

Chapter 6 – Downpayment and Closing Cost Loans

The downpayment and closing cost loan options available with Start Up include the Deferred Payment Loan, the Deferred Payment Loan Plus, and the Monthly Payment Loan. The three options provide assistance to pay for eligible expenses including downpayment and customary buyer closing costs.

Homebuyer Education. Homebuyer Education is required for at least one of the Borrowers who receive a Deferred Payment Loan or Monthly Payment Loan. See Section 3.07 for more details.

Cash Investment. A minimum cash investment of the lesser of 1% of the purchase price or $1,000, including prepaids, is required. The cash investment must come from the Borrower's assets and may not be a gift, grant, loan, or sweat equity contribution.

6.01 Deferred Payment Loan Program

The Deferred Payment Loan program is available to Lenders who participate in Start Up. The two Deferred Payment loan options available are:

- Deferred Payment Loan
- Deferred Payment Loan Plus

The Deferred Payment Loan Program provides assistance to pay for eligible expenses including downpayment, and closing costs. It may also be used for additional downpayment beyond the minimum downpayment requirement dictated by the loan product. The Deferred Payment Loan and the Deferred Payment Loan Plus:

- Are available only in conjunction with a first mortgage loan purchased by the Master Servicer under a Minnesota Housing Mortgage Revenue Bond (MRB) program
- May be combined only with Minnesota Housing First-Time Homebuyer loan products with a 30-year term
- Are a junior lien
- Must be paid in full when, among other things:
    - The maturity date of the Deferred Payment is reached
    - The property is sold or transferred
    - The first mortgage is paid in full, upon a refinancing or otherwise
    - The first mortgage is in default or is declared to be due and payable in full
    - Cannot be assumed

The **Deferred Payment Loan**:

- Is available in increments of $100 up to $8,000

The **Deferred Payment Loan Plus**:

- Is available in increments of $100 up to $10,000

6.02 Deferred Payment Loan Program Borrower Eligibility

The Borrower's maximum income to be eligible for the Deferred Payment Loan Program is indexed to area median income (AMI) and tiered by household size (see Deferred Payment Loan Program Income Limits on Minnesota Housing's website).

In addition to the Borrower Eligibility requirements in Chapter 2, eligible Borrowers must demonstrate two of the following conditions, if using the **Deferred Payment Loan Plus**:

- A front end ratio of 28% or higher (calculated without DPA)[1]
- A household of four or more people
- Have a Disabled Household Member
- Sole head of household with at least one Eligible Dependent residing in the household
  - An Eligible Dependents is:
    - A minor household member (under 18 years of age on the closing date);
    - A Disabled household member; or
    - A senior (age 62 or older on the closing date).

Limitation: The household must include only one adult that is not an Eligible Dependent.

Asset Limit. A Borrower's liquid assets after closing are limited to the greater of eight months principal, interest, taxes, insurance, and association fee (PITIA) or $8,000.

Cash to the Borrower at Closing. The Borrower may receive cash back at closing only when all of the following criteria apply:

- The cash to the Borrower at closing is a refund of dollars paid outside of closing and is reflected on the Closing Disclosure
- The cash to the Borrower at closing does not compromise the Borrower's minimum cash investment requirement

[1] Minnesota Housing realizes an estimate of front-end ratio may change in underwriting. As long as the Lender makes a good faith effort to identify costs at the point of origination, we allow reasonable changes to front-end ratio if the ratio documented on this worksheet is different than the final ratio calculated during underwriting. The Lender must provide an explanation if the variance between ratios is large or the Borrower's eligibility is a concern.

- The underlying first mortgage product and the insurer/guarantor allow the refund

6.03 Deferred Payment Loan Program Lender Warranties

In addition to the warranties stated in Section 1.07, the Lender warrants the following:

- The Borrower's cash investment is paid from the Borrower's out of pocket funds
- The Borrower's liquid asset reserves after closing are not more than the greater of eight months' PITIA or $8,000
- The Deferred Payment Loan Program monies received by the Borrower(s) are applied to the transaction and verified through the Closing Disclosure

6.04 Monthly Payment Loans

The Monthly Payment Loan provides assistance to pay for eligible expenses, including downpayment and customary buyer closing costs. Monthly Payment Loans:

- Are available only in conjunction with a Minnesota Housing first mortgage loan
- Are available in increments of $100 up to $12,000
- Must occupy second lien position when combined with a non-Minnesota Housing Community Second Mortgage
- Have an interest rate equal to that of the first mortgage
- Are fully amortizing and are payable in level monthly payments over a 10-year term
- Are due on the first of each month, beginning with the due date of the initial monthly payment for the first mortgage
- Must be paid in full upon:
    - Sale or refinance of the property
    - Transfer of title to the property
    - Payment in full of the first mortgage at maturity
    - The first mortgage is declared due and payable whether through default or other event
- May not be assumed

6.05 Monthly Payment Loan Borrower Eligibility

The Borrower must satisfy all Start Up eligibility requirements as well as the following additional requirements for the Monthly Payment Loan.

Income Limits. Monthly Payment Loan Borrowers must satisfy the Monthly Payment Loan Income Limits posted on Minnesota Housing's website.

Asset Limit. Monthly Payment Loans have no asset limit.

Cash to the Borrower at Closing. The Borrower may receive cash back at closing only when all of the following criteria apply:

- The cash to the Borrower at closing is a refund of dollars paid outside of closing and is reflected on the Closing Disclosure
- The cash to the Borrower at closing does not compromise the Borrower's minimum cash investment requirement
- The underlying first mortgage product and the insurer/guarantor allow the refund

6.06 Monthly Payment Loan Lender Warranties

In addition to the warranties stated in Section 1.07, the Lender warrants the following:

- The Borrower's cash investment is paid from Borrower's own funds
- The funds received by the Borrower(s) are applied to the transaction and verified through the Closing Disclosure

6.07 Housing Choice Voucher (HCV) Homeownership Program

The HCV Homeownership Program allows HUD Section 8 recipients to use their voucher subsidy to meet monthly homeownership expenses. Lenders originating HCV Homeownership loans must:

- Complete the U.S. Bank Home Mortgage, HFA Division, Section 8 Homeownership Subsidy Program Agreement and Home Choice/Section 8 Contract Information Form
- Service the loans before purchase by the Master Servicer in compliance with this Procedural Manual. This involves collecting a portion of the monthly payment from the Borrower(s) and a portion of the monthly payment from the public housing authority.

6.08 Second Mortgage Application and Loan Disclosure Procedures

The Lender must follow mortgage industry standard requirements for second mortgages when originating loans under the Deferred Payment Loan, Deferred Payment Loan Plus, and the Monthly Payment Loan programs.

Chapter 7 – Commitment/Disbursement

See Minnesota Housing's website for:

- The Rate Lock Guide
- The Loan Commitment Process Guide

Chapter 8 – Documentation Requirements

8.01 Loan Processing and Closing

All loans submitted to Minnesota Housing for approval must meet the following requirements:

- Loans must be closed and disbursed before requesting Minnesota Housing loan Funding Approval using the Minnesota Housing loan commitment system.
- The Lender must follow all mortgage industry regulatory and compliance provisions throughout the processing of the loan.
- All loan documents must be industry standard and meet the requirements of the Master Servicer, the underlying loan product, and the insurer/guarantor, as applicable. (See the Minnesota Housing website for more details on required forms.)
- All loan documents must be complete, accurate, and reviewed by the Lender at the various and appropriate stages of the loan.
- For loans underwritten utilizing industry standard automated underwriting systems, Minnesota Housing requires full documentation when verifying income and assets to confirm Minnesota Housing eligibility. Minnesota Housing or industry-standard forms may not be altered in any way other than to add a company name and logo.
- The loan must be originated and closed in, or assigned to, the name of the Lender that is a party to the Participation Agreement and that has received an Individual Commitment of Funds from Minnesota Housing.
- All first mortgage assignments must run directly from the Lender to the Master Servicer.
- All second mortgage assignments must run directly from the Lender to the Minnesota Housing Finance Agency.
- The Lender must submit final documents to the Master Servicer within 120 days of Master Servicer's loan purchase.
- Product specific requirements must be met: for Conventional HFA product requirements – refer to the Fannie Mae HFA Preferred™, Fannie Mae HFA Preferred Risk Sharing™, and Freddie Mac HFA Advantage℠ product descriptions on Minnesota Housing's website.

8.02 Minnesota Housing Documentation/Delivery Requirements

The Master Servicer provides the Delivery Checklist form detailing specific documentation and delivery requirements. The Lender must fully execute and deliver documents within designated timeframes. In addition, the Lender must specifically warrant the following:

- The Lender has reviewed any and all contracts in connection with the residence sale transaction to ensure total compliance with this manual.

- The Lender has obtained, and reviewed, applicable documentation to determine compliance with the certifications on the Borrower Affidavit as it pertains to the mortgage revenue bond First-Time Homebuyer requirements and other program requirements.
- The following Minnesota Housing program documents are signed at closing, or as close to closing as possible:
  - The Borrower Affidavit is signed, and duly notarized, by each Borrower who signs the note and intends to reside in the property as their Principal Residence.
  - The Property Seller Affidavit or Fannie Mae or Institutional Seller Property Affidavit is signed, and duly notarized, by those persons conveying the residence or land to the Borrower(s).
- The Subsidy Recapture Disclosure Statement and Tennessen Warning is complete and signed by each Borrower Documentation not delivered to the Master Servicer within the specified time frames may result, at Minnesota Housing's or the Master Servicer's discretion, in the Lender repurchasing the loan, or any other remedy as identified in this Procedural Manual. Minnesota Housing or the Master Servicer may also, at their discretion, extend the aforementioned timeframes.

8.03 Records Retention

The Lender must retain any and all compliance documents (including compliance with Minnesota Housing program guidelines) as may be required by the Lender's regulatory authority, the requirements of the underlying loan product, and the requirements of the insurer/guarantor, as appropriate.

Loan product and insurer/guarantor minimum or alternative documentation requirements do not relieve the Lender from the responsibility of acquiring and maintaining complete files, including any and all documents and materials as would customarily be required for servicing or loan audit.

Chapter 9 – Servicing

9.01 Servicing

Loans committed in connection with the Program are purchased by Minnesota Housing's Master Servicer. Minnesota Housing may, at its discretion, subject to any contractual provisions between Minnesota Housing and the Master Servicer, change the Master Servicer.

9.02 Lender Servicing Responsibilities

Notwithstanding anything to the contrary contained in the Participation Agreement, during the period from loan closing to Master Servicer purchase, the Lender must collect and apply all loan payments for the Start Up Loan, the Monthly Payment Loan, and the Deferred Payment Loan Program, if applicable, made by the Borrower(s). Loan payments collected must include:

- The Start Up Loan monthly principal and interest
- The Monthly Payment Loan monthly principal and interest, if applicable
- 1/12th of the annual property tax
- The mortgage insurance, if applicable
- Flood insurance, if applicable
- Hazard insurance (escrows)
- Assessments, if applicable

In addition, the Lender must complete the following servicing activities for the Start Up Loan and, if applicable, the Monthly Payment Loan:

- Maintain payment history indicating:
    - The breakdown of principal, interest, and escrows
    - Any principal repayments
    - The remaining principal balance of the loan
    - The collection of any past due payments

9.03 Assumption/Due-On-Sale

A Minnesota Housing loan financed with either a Conventional loan or Rural Development loan product is due upon sale and may not be assumed.

A Minnesota Housing loan financed with either a Federal Housing Administration (FHA) or Veterans Administration (VA) loan product may be assumed only by persons who:

- At the time of the assumption, intend to occupy the property as their Principal Residence within 60 days of closing

- Have not had an ownership interest in a Principal Residence (other than the property purchased with the proceeds of the loan) during the three year period ending on the day the Borrower(s) executed the loan application
- Do not have gross household income that exceeds the current Minnesota Housing limits (see Federal Purchase Price Limits – Assumption on Minnesota Housing's website)
- Are not purchasing or acquiring the residence at an Acquisition Cost that exceeds the current Minnesota Housing limits (see Federal Purchase Price Limits – Assumption on Minnesota Housing's website)

Unless the loan is assumed in accordance with the above provisions, the loan is due upon sale or transfer of title.

9.04 Hardship Policy

Minnesota Housing has in place a hardship policy for its Monthly Payment Loan and the Deferred Payment Loan Program that allows forgiveness either in part or whole if the Borrower is experiencing severe financial hardships that prevent him or her from paying back the full indebtedness.

Appendix A: Definitions

TERM	DEFINITION
Acquisition Cost	The cost of acquiring a completed residential unit (see Section 3.04).
Annualized Gross Income	Gross monthly income multiplied by 12.
Borrower	A person who receives funds in the form of a loan secured by real property with the obligation of repaying the loan and, in addition, any person purchasing the real property securing the loan, executing the promissory note, executing a guarantee of the debt evidenced by the promissory note, or signing a security instrument in connection with a loan.
Co-Signer	A party that is obligated to repay the loan. A Co-signer assumes only personal liability and has no ownership interest in the property.
Eligibility Income	See Section 2.09. Any of several different types of earned or unearned income claimed by the Borrower. Types of income include, but are not limited to: Base Pay, Variable Income, Income resulting from Self-Employment or a Business, Income from Assets, Government Transfer Payments, Insurance Benefits, etc.
Disabled Household Member	A Borrower or household member who has a permanent physical or mental condition, which substantially reduces the person's ability to function in a residential setting.
First-Time Homebuyer	A Borrower who meets the requirements as stated in Section 3.05 of this Procedural Manual.
Individual Commitment	A legal commitment of funds with specific terms and conditions for use by a Borrower purchasing a property.
Master Servicer	The company selected by Minnesota Housing to be the Master Servicer for the Mortgage Revenue Bond Mortgage Backed Securities Program.
New Construction or Newly Constructed Residence	New Construction or a Newly Constructed Residence refers to a residence, which either has never been occupied or was completed within 24 months preceding the date of the home mortgage loan and was not subject to previous financing with a term greater than 24 months (i.e., a contract-for-deed, mortgage, or gap loan).

<table>
<tr><th>TERM</th><th>DEFINITION</th></tr>
<tr><td>Personal Property</td><td>Property such as an appliance, a piece of furniture, a radio etc., which under applicable law is not a fixture.</td></tr>
<tr><td>Principal Residence</td><td>A property used as the primary domicile of the owner-occupant Borrower and the household.</td></tr>
<tr><td>Property Seller</td><td>The seller of the property under contract for sale to the Borrower who is using Minnesota Housing financing.</td></tr>
<tr><td>Qualified Homebuyer Education</td><td>Qualified Homebuyer Education is homebuyer education completed as outlined in its entirety in Section 3.07 of this Procedural Manual.</td></tr>
<tr><td>Sole head of household with at least one Eligible Dependent</td><td>Sole head of household with at least one Eligible Dependent residing in the household.
An Eligible Dependents is:
A minor household member (under 18 years of age on the closing date);
A Disabled household member; or
A senior (age 62 or older on the closing date).
Limitation: The household must include only one adult that is not an Eligible Dependent.</td></tr>
<tr><td>Temporary Financing</td><td>Initial financing such as a construction loan, bridge loan, and contract for deed with a term of 24 months or less.</td></tr>
</table>

Appendix B: Forms List

See www.mnhousing.gov for required Start Up forms as well as the Start Up Process Guide and optional forms.